

PUBLIC DISCLOSURE

December 21, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

STONEHAM CO-OPERATIVE BANK

335 MAIN STREET
STONEHAM, MA 02180

DIVISION OF BANKS
100 CAMBRIDGE STREET
BOSTON, MA 02202

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Stoneham Co-Operative Bank prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Outstanding."

This rating is based on the following five performance criteria which are evaluated within the performance context section of this Public Evaluation: (1) Net Loan to Deposit Ratio, (2) Credit Extended Inside of the Assessment Area, (3) Distribution of Credit Among Different Incomes, (4) Geographic Distribution of Loans and (5) Review of Complaints and Fair Lending. The following summary highlights the results of each performance criteria.

Stoneham Co-operative Bank's average net loan to deposit ratio for the period examined was 96.8 percent. Compared to other similarly situated institutions the bank performed well above its peer group and is considered to exceed the standards of satisfactory performance in this category.

The volume of lending within its assessment area is considered to exceed the standards of satisfactory performance. In 1997 and year-to-date October 8, 1998, Stoneham Co-operative Bank granted a total of 3,311 mortgage loans, of which 1,677, or 50.6% are within its assessment area. Emphasis, however, was placed on the actual volume of loans within the assessment area in addition to the percentage of loans, in combination with the asset size of the institution. The bank continues to be ranked as a leading lender for mortgage loan originations within its assessment area, despite strong competition from other banks and mortgage companies.

The bank displays a strong willingness to lend to borrowers all incomes, specifically, low and moderate-incomes. Of the 1,677 mortgage loan originations from within its assessment area, 409, or 24.4% are to borrowers of low and moderate-incomes. Stoneham Co-operative Bank is also ranked the number one lender in lending to low and moderate-income borrowers compared to 399 other financial institutions and mortgage companies within the assessment area. The bank has exceeded satisfactory performance standards in this criteria.

The bank's performance in lending within the various census tracts within its assessment area is considered to meet the standards of satisfactory performance.

Finally, Stoneham Co-operative Bank's Fair Lending performance was also determined to exceed the standards of satisfactory performance. Primary emphasis was placed on the number of flexible credit products offered by the bank, which address the needs of borrowers from all segments within its assessment area.

Based on the institution's efforts, and described in detail throughout this report, Stoneham Co-operative Bank's performance is considered to be at an outstanding level.

PERFORMANCE CONTEXT

Description of Institution

Stoneham Co-operative Bank, a mutually owned institution, was chartered under the laws of the Commonwealth in 1887. In addition to its main office which is located at 335 Main Street, Stoneham, Stoneham Co-operative Bank operates two full service branch offices and three loan operation centers. The two branch offices are located at the Redstone Shopping Center at 99D Main Street, Stoneham and 480 Boston Road, Billerica. Three loan operation centers are located at 200 Unicorn Park Drive, Woburn, 3 Edgewater Drive, Norwood, and 4 Bellows Road, Westborough. Hours of operation are reasonable and compare favorably with other local financial institutions. Both branch offices offer extended hours Thursday and Friday evenings until 7:00 p.m. and both offices are opened until 1:00 p.m. on Saturdays. All loan offices are open Monday through Friday from 8:30 am to 5:00 p.m. and by appointment. Automated Teller Machines (ATMs) are located at all banking offices and are linked to the NYCE and CIRRUS Networks. The main office also provides a drive-up window.

In addition, Stoneham Co-operative Bank's customers and potential customers are provided with the convenience of 24-hour telephone banking, PC banking and bank by mail.

As a participant in Massachusetts Community and Banking Council's (MCBC) Basic Banking Program, Stoneham Co-operative Bank offers low cost savings and checking accounts to all segments of its assessment area, including those with modest incomes.

The bank is also a participant in the voluntary government check-cashing program and in the public assistance check direct deposit program.

The bank's primary focus is to address the financial needs of its customers, particularly in the area of residential mortgages. As of the bank's September 30, 1998 FDIC Quarterly Call Report, 75.0% of the bank's \$222,131,000 total assets were in the form of loans. Loans secured by one-to-four family residential properties comprised 60.4% of total assets, and 80.4% of the total loan portfolio. The following table depicts the composition of Stoneham Co-operative Bank's loan portfolio:

Loan Portfolio as of September 30, 1998		
Type of Loans	\$ (000's)	% of Gross Loans
Construction & Land Development	24,061	14.4
Residential Real Estate		
a. 1-4 Family Mortgages	125,004	75.0
b. Home Equity Lines	9,061	5.4
Multifamily	261	0.2
Commercial Loans		
a. Commercial Real Estate	7,130	4.3
b. Commercial & Industrial Loans		
c. Agricultural Loans		
Consumer Loans		
a. Credit Cards & Related Plans	226	0.1
b. Loans to Individuals	941	0.6
Other Loans		
a. Loans to Financial Institutions		
b. Municipal Loans		
c. Farmland Real Estate Loans		
d. Other		
Total	166,684	100.0

Source: FDIC Quarterly Call Report, 9/30/98.

Along with its traditional products, the bank offers special programs with flexible lending criteria designed to assist the needs of low and moderate-income borrowers. These programs include but are not limited to the Alternative Loan Program, Government Loan Programs, Lead Abatement Loan, Affordable Housing Loan, Massachusetts Housing Finance Agency Loan Products, and American Dream Loans.

The bank's competition includes both state and nationally chartered financial institutions located within its assessment area. Large lenders within the bank's assessment area consist of Medford Savings Bank, Lexington Savings Bank, Eastern Bank, Andover Bank, and MassBank; branches of larger national banks and numerous regional and national mortgage companies. Management considers these institutions as its competition, as well as the top 25 lenders throughout Massachusetts.

PCI Services, Inc., CRA Wiz, was utilized to generate HMDA reports when comparing Stoneham Co-operative Bank to other HMDA reportable lenders throughout its assessment area. In addition, Bankers & Tradesmen reports were also used.

The Federal Deposit Insurance Corporation (FDIC) conducted a CRA Examination on May 27, 1997, under the streamlined examination procedures for a small bank, and based on their conclusion, assigned the bank an Outstanding rating. Prior to that examination, the Massachusetts Division of Banks assigned the bank an Outstanding rating for CRA compliance on April 19, 1996. Stoneham Co-operative Bank's ability to meet community credit needs remains strong based on the financial condition and size of the institution.

Description of Assessment Area

Stoneham Co-operative Bank has defined its assessment area as the following cities and towns: Bedford, Billerica, Burlington, Lexington, Lynnfield, Malden, Medford, Melrose, North Reading, Reading, Revere, Saugus, Stoneham, Tewksbury, Wakefield, Wilmington, Winchester, and Woburn. This assessment area encompasses 91 census tracts: 81 are within the Boston Metropolitan Statistical Area (MSA) and 10 census tracts are located within the Lowell Metropolitan Statistical Area (MSA). The towns of Billerica and Tewksbury are the only communities located in the Lowell MSA. This assessment area is also located within Essex, Middlesex and Suffolk Counties. The towns of Saugus and Lynnfield are located within Essex County and the City of Revere is located in Suffolk County. The remaining cities and towns are located in Middlesex County.

ASSESSMENT AREA DEMOGRAPHICS				
CENSUS TRACT INCOME LEVEL	NUMBER OF CENSUS TRACTS WITHIN ASSESSMENT AREA	CENSUS TRACT PERCENTAGE	FAMILY HOUSEHOLDS	HOUSEHOLD PERCENTAGE
LOW	1	1.1	41	0.1
MODERATE	8	8.8	10,098	7.6
MIDDLE	54	59.3	83,172	62.4
UPPER	28	30.8	39,881	29.9
TOTAL	91	100.0	133,192	100.0

Source: 1990 Census Data

The one low-income census tract is located in the Town of Tewksbury. According to information obtained from bank management and through discussions with community organizations, this census tract primarily consists of a hospital, a nursing home, a

cemetery and a ball field. One community contact stated that all of the housing units in the census tract are comprised entirely of state-owned elderly housing controlled by the local housing authority.

According to information obtained from CRA Wiz and based on 1990 US Census Data, Stoneham Co-operative Bank's assessment area has a combined population of 504,627

with a total of 133,192 family households. Approximately 6.1% of the total households within the assessment are living below the poverty level. Owner-occupancy for the entire assessment area stands at 65.34% of all occupied units, while rental occupancy is 30.97%. The City of Malden has the lowest percentage of owner occupied units at 43.2% while the Town of Lynnfield had the highest percentage at 93.3%. The median housing values in the assessment area range from a low of \$160,500 in Revere to a high of \$293,700 in Winchester. Refer to the following table for a complete breakdown.

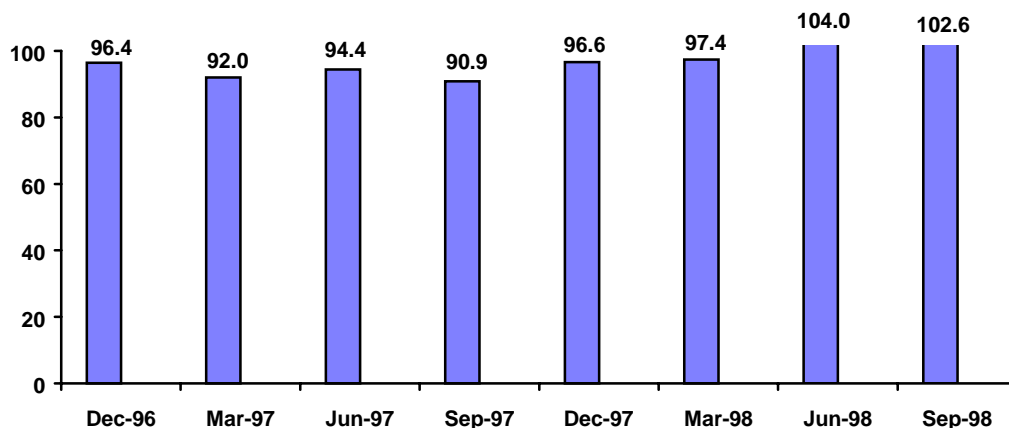
ASSESSMENT AREA HOUSING DATA*					
LOCATION	TOTAL OCCUPIED HOUSING UNITS		OWNER-OCCUPIED UNITS	RENTAL UNITS	MEDIAN HOUSING VALUE
	#	%	%	%	
Bedford	4,479	2.4	71.3	28.7	228,200
Billerica	11,695	6.3	82.3	17.7	162,400
Burlington	7,870	4.3	79.2	20.8	191,100
Lexington	10,515	5.7	82.0	18.0	282,800
Lynnfield	3,916	2.1	93.3	6.7	258,600
Malden	21,921	11.9	43.2	56.8	162,900
Medford	21,829	11.8	57.1	42.9	182,400
Melrose	10,941	5.9	65.4	34.6	196,100
North Reading	4,065	2.2	88.3	11.7	190,300
Reading	7,932	4.3	81.4	18.6	204,100
Revere	17,438	9.4	48.9	51.1	160,500
Saugus	9,286	5.0	77.8	22.2	166,700
Stoneham	8,627	4.7	65.9	34.1	194,900
Tewksbury	8,744	4.8	88.6	11.4	166,100
Wakefield	9,296	5.0	71.2	28.8	190,600
Wilmington	5,551	3.0	92.7	7.3	174,700
Winchester	7,281	3.9	79.0	21.0	293,700
Woburn	13,485	7.3	61.1	38.9	172,600
TOTAL	184,871	100.0			

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

A comparative analysis of Stoneham Cooperative Bank's quarterly net loan-to-deposit ratios for the period of December 31, 1996, through September 30, 1998, was conducted during this examination. Using the bank's quarterly Call Reports, the average net loan-to-deposit ratio for this period was determined to be 96.8%. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits. The following graph is provided for further analysis:

***NET LOAN-TO-DEPOSIT RATIOS
DECEMBER 31, 1996 THROUGH SEPTEMBER 30, 1998***



The loan to deposit ratio stands at 102.6% as of September 30, 1998. The ratio has increased by 6 percentage points over that of December 31, 1996. An analysis of the components of the ratio - the amount of bank loans and deposits - was also performed. This analysis revealed that loans have increased by 21.7%, while deposits for the same period increased 14.3%. The increase in loans is primarily due to the steadfast economy as well as the large volume of outside originators the bank employs. As mentioned earlier, the bank is primarily a residential lender and has achieved a remarkable volume of loans during the period examined, making over 3,000 loans with a total value of \$449,087,000 dollars.

Much of the growth in loans has been financed through Federal Home Loan Bank borrowings which have been significant during the past two years. The bank is also an active seller in the secondary market and sells a substantial number of loans to secondary market sources, including FNMA, FHLMC, MHFA and Countrywide Funding. In 1997, the bank sold 1,028 loans totaling \$133,288,742. In 1998, the bank sold 2,271 loans for a total of \$314,187,333.

Stoneham Cooperative Bank's average net loan-to-deposit ratio was compared to the ratios of five other area institutions. The ratios used for Stoneham Cooperative Bank and the other institutions were as of September 30, 1998. Refer to the following table for information.

INSTITUTION	NET LOAN TO DEPOSIT RATIO
Stoneham Cooperative Bank	102.6%
Medford Cooperative Bank	102.3%
Stoneham Savings Bank	85.0%
Winchester Cooperative Bank	79.7%
Winchester Savings Bank	79.3%
The Savings Bank (Wakefield)	44.3%

As indicated in the above table, Stoneham Cooperative Bank maintained the highest net loan-to-deposit ratios as of September 30, 1998, when compared to a group of other financial institutions of similar size and type located within the assessment area. Stoneham Cooperative Bank was also compared to all savings institutions within Massachusetts with total assets between \$100 million and \$300 million as of September 30, 1998. This report indicates that all other lenders have an average net loan-to-deposit ratio of 78.5% compared to Stoneham Cooperative Bank at 102.6%.

Despite selling loans on the secondary market, the bank continues to maintain an extremely high net loan-to-deposit ratio.

Based upon the information above and comparing Stoneham Cooperative Bank's asset size to its competitors throughout the assessment area, the bank's net loan-to-deposit ratio is considered to exceed the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

An analysis of lending inside the institution's assessment area was performed by reviewing the 1997 and year to date October 8, 1998, Home Mortgage Disclosure/Loan Application Registers (LAR). During this period, the bank originated 3,311 loans totaling \$449,087,000, of which 1,677 (50.6% of the number) totaling \$229,393,000 (51.1% percent of the dollar) were within the bank's assessment area. Of the loans originated from within the bank's assessment area, 54.1% were refinances, 44.8% were for home purchases and 1.1% were for home improvement. The following table depicts the distribution of HMDA related loan originations by number inside and outside of the bank's assessment area.

RESIDENTIAL LOANS ORIGINATED BY NUMBER						
LOCATION	1997		1998*		TOTALS	
	#	%	#	%	#	%
Billerica	90	8.0	178	8.1	268	8.1
Stoneham	77	6.9	156	7.1	233	7.0
Saugus	100	8.9	119	5.4	219	6.6
Wilmington	45	4.0	85	3.9	130	3.9
Reading	46	4.1	73	3.3	119	3.6
Wakefield	41	3.7	70	3.2	111	3.4
Tewksbury	41	3.7	63	2.9	104	3.1
Woburn	42	3.8	53	2.4	95	2.9
Medford	24	2.1	48	2.2	72	2.2
Melrose	26	2.3	42	1.9	68	2.1
North Reading	21	1.9	35	1.6	56	1.7
Malden	23	2.0	30	1.4	53	1.6
Revere	17	1.5	30	1.4	47	1.4
Burlington	17	1.5	26	1.2	43	1.3
Lynnfield	9	0.8	28	1.3	37	1.1
Winchester	4	0.4	7	0.3	11	0.3
Lexington	4	0.4	2	0.1	6	0.2
Bedford	2	0.2	3	0.1	5	0.1
INSIDE ASSESSMENT AREA	629	56.2	1,048	47.8	1,677	50.6
OUTSIDE ASSESSMENT AREA	490	43.8	1,144	52.2	1,634	49.4
TOTALS	1,119	100.0	2,192	100.0	3,311	100.0

Source: HMDA/LAR Data

*Year-to-Date October 8, 1998

As illustrated in the above table, HMDA reportable loans increased by 95.9% from 1997 to year-to-date October 8, 1998. Management stated that this was attributed to the low interest rates, which resulted in a tremendous amount of refinances. Refinances increased from 231 loans in 1997 to 676 loans year-to-date October 8, 1998.

The following table shows the distribution of HMDA related loan originations by dollar amount inside and outside of the bank's assessment area.

RESIDENTIAL LOANS ORIGINATED BY DOLLAR (000's)						
LOCATION	1997		1998*		TOTALS	
	\$	%	\$	%	\$	%
Billerica	12,647	8.5	22,259	7.4	34,906	7.8
Stoneham	10,231	6.9	22,127	7.4	32,358	7.2
Saugus	12,991	8.8	16,375	5.4	29,366	6.5
Reading	6,965	4.7	11,993	4.0	18,958	4.2
Wilmington	6,575	4.4	12,189	4.1	18,764	4.2
Wakefield	5,651	3.8	9,571	3.2	15,222	3.4
Tewksbury	4,959	3.3	8,550	2.8	13,509	3.0
Woburn	4,539	3.1	6,726	2.2	11,265	2.5
Medford	3,032	2.0	6,739	2.2	9,771	2.2
Melrose	3,506	2.4	5,509	1.8	9,015	2.0
North Reading	2,666	1.8	4,858	1.6	7,524	1.7
Lynnfield	2,022	1.4	5,337	1.8	7,359	1.6
Malden	2,772	1.9	3,436	1.1	6,208	1.4
Burlington	2,383	1.6	3,651	1.2	6,034	1.3
Revere	1,920	1.3	3,482	1.2	5,402	1.2
Winchester	479	0.3	1,096	0.4	1,575	0.4
Lexington	831	0.6	324	0.1	1,155	0.3
Bedford	482	0.3	520	0.2	1,002	0.2
INSIDE ASSESSMENT AREA	84,651	57.1	144,742	48.1	229,393	51.1
OUTSIDE ASSESSMENT AREA	63,666	42.9	156,028	51.9	219,694	48.9
TOTALS	148,317	100.0	300,770	100.0	449,087	100.0

Source: HMDA/LAR Data

*Year-to-Date October 8, 1998

As indicated above, 50.6 percent of residential and home improvement mortgage originations were inside the bank's assessment area. This percentage is adequate in meeting the standards for satisfactory performance for this criterion; however, heavier emphasis was placed on the actual number of loans made within the assessment area which at 1,677 loans with a total value of \$229,393,000 is considered notable. This finding is further supported by a consideration of the bank's asset size and the proportion of assets devoted to the assessment area.

In addition, the bank's market share indicates a substantial loan presence within the bank's assessment area. According to a market share report generated by PCI Services, Inc. CRA Wiz, the bank ranked fourth out of 399 lending institutions in originating HMDA reportable loans within the assessment area during 1997. The lenders that were ranked above Stoneham Co-operative Bank in originating HMDA reportable loans were two large national mortgage companies and one much larger financial institution.

Management also utilizes Banker & Tradesman reports to track market shares and to determine avenues for improvement. In 1997, Stoneham Co-operative Bank was ranked the number one lender for purchased money mortgages in 6 of the 18 cities and towns that comprise its assessment area. According to the June 1998 Bankers & Tradesmen report, the bank ranked among the top three lenders in eight of the cities and towns.

In light of the above market share information, Stoneham Co-operative Bank is considered to exceed the standards of satisfactory performance in lending within its assessment area.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of HMDA reportable loan originations extended within the institution's assessment area, among various borrower income levels, was conducted. Originations were categorized by the ratio of the applicant's reported income to the 1997 and 1998 median family incomes of the Boston MSA and the Lowell MSA. These income figures are based on estimated 1997 and 1998 data from the Department of Housing and Urban Development (HUD). Refer to the following table for a breakdown of the estimated 1997 and 1998 HUD information.

MSA	1997	1998
Boston	\$59,600	\$60,000
Lowell	\$59,100	\$59,200

Low income is defined by the US Census Bureau as income below 50% of the median family income level for the MSA; moderate income is defined as 50 to 79% of the median family income; middle income is defined as income between 80 and 119% of the median family income; and upper income is defined as income greater than 120% of the median family income.

Refer to the following table for information regarding the bank's distribution of credit among different income levels by number with the amount of family households within each income category.

LOAN ORIGINATIONS BY INCOME OF BORROWER (NUMBER)								
Borrower Income Level	Family Households		1997		1998-YTD		Total	
	#	%	#	%	#	%	#	%
< 50%	19,489	14.6	28	4.5	31	3.0	59	3.5
50 - 79%	23,044	17.3	129	20.5	221	21.1	350	20.9
80 - 119%	34,414	25.9	250	39.7	371	35.4	621	37.0
> = 120%	56,245	42.2	215	34.2	402	38.4	617	36.8
NA	0	0	7	1.1	23	2.1	30	1.8
TOTALS	133,192	100.0	629	100.0	1,048	100.0	1,677	100.0

Source: HMDA/LAR Data for the period 1/1/97 to year-to-date 10/8/98.

As depicted in the above table 24.4% of the total number of Stoneham Co-operative Bank's HMDA reportable loan originations in 1997 and year-to-date October 8, 1998, were granted to borrowers of low and moderate-incomes.

The following table depicts the dollar amount of loan originations to borrowers of different incomes.

LOANS ORIGINATED BY INCOME OF BORROWER (Dollar Amount)						
% OF MEDIAN MSA INCOME	1997		1998*		TOTALS	
	\$(000)	%	\$(000)	%	\$(000)	%
<50%	2,128	2.5	1,968	1.4	4,096	1.8
50%-79%	12,884	15.2	23,926	16.5	36,810	16.1
80%-119%	32,698	38.6	50,095	34.6	82,793	36.1
>120%	36,238	42.8	65,853	45.5	102,091	44.5
NA	703	0.9	2,900	2.0	3,603	1.5
TOTALS	84,651	100.0	144,742	100.0	229,393	100.0

Source: HMDA\LAR Data

*Year-to-date October 8, 1998

The following table compares the number and dollar amount of loans originated by Stoneham Co-operative Bank to low, moderate, middle and upper-income borrowers in 1997 with the activity of 399 other HMDA reporting lenders in the assessment area for the same time frame.

BANK 1997 HMDA REPORTABLE ORIGINATED LOANS COMPARED TO AGGREGATE DATA								
Borrower Income Level	Bank		All Other Reporters		Bank		All Other Reporters	
	#	%	#	%	\$(000)	%	\$(000)	%
<50%	28	4.5	657	3.6	2,128	2.5	42,448	1.7
50%-79%	129	20.5	2,750	15.3	12,884	15.2	262,192	10.2
80%-119%	250	39.7	4,897	27.2	32,698	38.6	596,522	23.3
>120%	215	34.2	6,695	37.1	36,238	42.8	1,186,146	46.3
NA	7	1.1	3,033	16.8	703	0.9	474,737	18.5
Total	629	100.0	18,032	100.0	84,651	100.0	2,562,045	100.0

Source: HMDA Data compiled by PCI Services, Inc. CRA Wiz

The distribution of the bank's residential mortgage originations in 1997, based on borrower income, and compared to its peer group is shown in the preceding table. The data shows that the bank's originations to low and moderate-income borrowers as a percentage of total originations is well above peer. The bank granted 4.5% of its total residential mortgage originations to low-income borrowers, compared to 3.6% for all other lenders

and 20.5% of its mortgage loans to moderate-income borrowers, which is well above that of the aggregate of 15.3%. The bank's percentage of originations to middle-income borrowers is also well above that of other lenders, and originations to upper-income borrowers is slightly lower.

It is evident that the bank is willing to originate loans to low and moderate-income applicants by participating in government programs and offering many of the flexible products established by its correspondent lenders. A review of aggregate market share data for 1997 obtained from PCI Services, Inc., CRA Wiz, also indicated that Stoneham Co-operative Bank was ranked the number one lender (out of 399 institutions) to low and moderate-income applicants with a 4.41% market share.

The distribution of lending for 1997 and 1998 reflects an excellent penetration among individuals of different income levels, given the demographics of the bank's assessment area. Therefore, the bank is considered to exceed the standards for satisfactory performance in this category.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of HMDA reportable loan originations extended within the various census tracts contained in the bank's assessment area was conducted during the examination. The bank's assessment area is comprised of 91 census tracts, 1 that is designated as low-income, 8 that are moderate-income, 54 that are middle-income, and 28 that are designated as upper-income.

The following table shows the number of residential loans originated within the assessment area by census tract classification for calendar year 1997 and year-to-date October 8, 1998. Of the total loans originated within the assessment area, loans within moderate-income tracts account for 1.9%, followed by loans in middle-income census tracts at 80.5%, and upper-income census tracts accounting for 17.5%. The percentage of loans originated in moderate-income census tracts is slightly lower than the level of owner-occupied properties within the assessment area.

RESIDENTIAL LOAN DATA BY CENSUS TRACT CLASSIFICATION								
Census			1997		1998		Total	
Tract Income	Owner-Occupied Properties*		Number of Loans		Number of Loans		Total Loans	
Category	#	%	#	%	#	%	#	%
Low	8	0.1	0	0.0	1	0.1	1	.06
Moderate	6,711	5.3	9	1.5	23	2.2	32	1.9
Middle	77,028	61.4	511	81.2	839	80.0	1,350	80.5
Upper	41,671	33.2	109	17.3	185	17.7	294	17.5
Total	125,418	100.0	629	100.0	1,048	100.0	1,677	100

Source: HMDA/LAR Data

*Year-to-date October 8, 1998

LOANS ORIGINATED BY CENSUS TRACT CLASSIFICATION (Dollar Amount)						
% OF MEDIAN MSA INCOME	1997		1998*		TOTALS	
	\$(000)	%	\$(000)	%	\$(000)	%
<Low	0	0.0	110	.1	110	.05
Moderate	919	1.1	2,721	1.9	3,640	1.6
Middle	66,512	78.6	112,885	78.0	179,397	78.1
Upper	17,220	20.3	29,026	20.0	46,246	20.2
TOTALS	84,651	100	144,742	100	229,393	100

Source: HMDA\LAR Data

*Year-to-date October 8, 1998

As the above table indicates, dollar amounts of loans follow a similar distribution pattern as that of the number of loans, with the majority of loan dollars being made within middle-income census tracts.

A comparative analysis of Stoneham Cooperative Bank's lending performance with that of all other HMDA reporters within the assessment area was also conducted. HMDA data for calendar year 1997 was used to compare the geographic distribution of the bank's loans with those of other bank and non-bank entities such as large national mortgage companies, and credit unions that originated HMDA-reportable loans within the various income geographies. The results of this analysis is presented in the following table:

AGGREGATE RESIDENTIAL LOAN DATA BY CENSUS TRACT CLASSIFICATION ¹										
Census Tract Income Category	Owner- Occupied Properties*		1997				1997 AGGREGATE			
			Number of Loans		Dollar Amount		Number of Loans		Dollar Amount	
	#	%	#	%	\$(000)	%	#	%	\$(000)	%
Low	8	0.1	0	0.0	0	0.0	15	0.1	1,451	0.1
Moderate	6,711	5.3	9	1.5	919	1.1	874	4.8	83,383	3.2
Middle	77,028	61.4	511	81.2	66,512	78.6	10,650	59.1	1,281,470	50.0
Upper	41,671	33.2	109	17.3	17,220	20.3	6,493	36.0	1,195,741	46.7
Total	125,418	100	629	100	84,651	100	18,032	100	2,562,045	100

Source: ¹HMDA\LAR Data

*1990 Census Data

The one low-income census tract only contains eight owner-occupied housing units. This tract is located in Tewksbury and consists of property owned and controlled by state government, which limits the opportunity for residential lending in this area.

As mentioned under lending to borrowers of different incomes, the bank is not excluding low and moderate-income individuals. Based upon the analysis of the geographic

distribution of loans, Stoneham Co-operative Bank is considered to meet the standards of satisfactory performance in generating originations from all segments of its assessment area.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Based upon the review of the bank's public comment file and its performance relative to fair lending policies and practices the institution exceeds the standards for satisfactory performance.

REVIEW OF COMPLAINTS

There have been no CRA related complaints since the previous examination.

FAIR LENDING POLICIES AND PRACTICES

Stoneham Co-operative Bank's Board of Directors has approved and adopted a Fair Lending Policy aimed at preventing any prohibited discriminatory practices from occurring. The most recent approval was in July of 1998.

STAFF TRAINING

The bank annually sponsors mandatory in-house compliance and fair lending workshops for all employees at various intervals throughout the year. In February and March of 1997, all loan personnel were required to attend a fair lending seminar that included a video and a Fair Lending Quiz. The Board of Directors also viewed the Fair Lending video during their meeting in March of 1997.

In March of 1998, the bank sponsored workshops that focused on the major compliance and CRA regulations.

In October of 1998, bank management conducted a workshop on key lending regulations including the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act (HMDA). The workshop also consisted of a 32-minute video.

In addition to in-house training, bank management frequently attends industry-sponsored seminars and workshops dealing with CRA related issues and Fair Lending laws and regulations. A seminar on HMDA Reporting Update and Compliance with CRA: An Overview, was conducted in February of 1998 by the Massachusetts Bankers Association and attended by three managers of the lending department.

An officer of the bank attended a Fair Credit Reporting Act seminar sponsored by the Community Bank League of New England in June of 1997.

Representatives from Freddie Mac also conducted training for the bank's sales staff on affordable housing products, including rehabilitation loans, for low and moderate-income individuals.

STAFF COMPOSITION AND COMPENSATION

As of the date of this examination, the Stoneham Co-operative Bank employs 156 individuals. Bank management has identified 12 employees who speak foreign languages, including French, Italian, Portuguese and Spanish. These individuals have volunteered to be a resource when called upon to aid foreign speaking customers.

The bank currently employs 21 outside mortgage loan originators who work in and around the bank's assessment area. These outside originators are paid on a commission basis,.

OUTREACH

The bank has developed relationships with several area organizations, which assists in its monitoring of community needs as well as informing the community of the credit services offered by the institution. Bank management maintains membership and/or close relationship with: Mass Banker's Association, Minuteman HealthCare Money Management Program, Visiting Nurse Association, Boston Regional Hospital, Rotary Clubs and Chambers of Commerce in almost every community within its assessment area.

Stoneham Co-operative Bank was also involved with the former Stoneham Community Development Corporation and in 1998 granted a loan as part of its revitalization of Stoneham Square project.

The bank has been active in providing the community with information concerning the management of individual finances. On December 8, 1998, the bank conducted a basic information session on safe investments and long term care planning at the Stoneham Senior Center. In November 1997, the bank conducted two information seminars called Tax Laws and You. These seminars provided basic information on tax law changes that impact investments.

In March 1997, the bank participated in a Job Fair, which was held at the Stoneham High School and sponsored by the Stoneham Chamber of Commerce.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

Stoneham Co-operative Bank offers a variety of loan products and innovative programs designed to meet the needs of its assessment area. The bank originates residential mortgage loans both for its own portfolio and for sale in the secondary market, primarily to the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and the Federal National Mortgage Association (FNMA or Fannie Mae). In 1997 and 1998, Stoneham Co-

operative Bank granted a total of 50 loans totaling \$7,181,855 under various programs offered by FHLMC and FNMA.

In 1997 and 1998, the bank participated in FHLMC's Affordable Gold 95 Program, the American Dream III, the Affordable Gold 97, Affordable Gold 3/2, Affordable Gold 2-4 Unit, Affordable Gold Rehab Program and the ALT 97.

FNMA's programs consisted of the Community Homebuyers Program and the CRA Pilot Program. The Community Homebuyer's Program up to 95% financing on single family, owner occupied dwellings and owner occupied condominium units. The program features flexible qualifying ratios, and no reserve requirement. Eligible applicant's income must not exceed 120% of the Boston MSA median income. In 1997 and 1998, the bank granted one loan under this program totaling \$51,900.

The FNMA CRA Pilot Program offers mortgage loans on two and three family residential dwellings. This program allows for up to 95% financing for two family purchases and 90%

for three family homes. With the exception of borrowers who currently own a home that they are selling at or prior to the time of the purchase, the borrowers may not own any other residential property. The program also contains more flexible underwriting guidelines that allow for greater rental income consideration. The bank originated 11 loans totaling \$1,929,875 under this program in 1997 and 1998.

The bank also participates in a significant amount of other government-sponsored affordable housing programs. Under the Massachusetts Housing Finance Agency's (MHFA's) Affordable Housing Program the bank granted 67 loans totaling \$6,447,415 in 1997 and 1998. Two loans totaling \$45,000 were granted under MHFA's Lead Paint Program in 1997 and 1998.

Stoneham Co-operative Bank is also an approved FHA and VA lender. These programs enable the bank to offer 100% financing and feature higher qualifying ratios with no reserves. In 1997 and 1998, Stoneham Co-operative Bank granted a total of 177 FHA and VA loans totaling \$22,256,877.

Stoneham Co-operative Bank is also an approved lender for Countrywide Funding Corporation and offers both House America 97% LTV Program and its House America 95% LTV Program. These programs target people with less than 120% of the Boston MSA median household income, and use flexible qualifying ratios. Borrowers must participate in a homebuyer education program. In 1997 and 1998, the bank granted a total of 8 loans amounting to \$653,210.

The bank also offers "alternative" loan products that are designed to assist low and moderate-income applicants and applicants who have experienced credit problems in the past, to obtain financing for housing. Also other alternative programs were introduced in 1997 and allow for expanded underwriting guidelines that the traditional secondary market loans does not permit.

MARKETING

Stoneham Co-operative Bank maintains a strong and effective marketing program. The bank does not advertise in foreign language publications, however, advertising strategies appear to reach all segments of its assessment area.

CREDIT EDUCATION

Stoneham Co-operative Bank has sponsored or participated in various credit education programs over the past two years. On October 28, 1998, the bank conducted its first computer on-line seminar. The bank's construction loan specialist conducted this two-hour, on-line Virtual Construction Seminar. The seminar allowed interested parties to obtain information and discuss a wide range of construction topics and concerns.

In February 1998, the bank conducted a Construction Loan Seminar, which was held at the Marriott Hotel.

On September 24, 1998, the bank conducted a free two-hour consumer construction loan seminar in Burlington. The purpose of this seminar was to educate individuals on matters concerning building or remodeling their home. Guest speakers included bankers, builders, professional engineers, attorneys, and insurance consultants.

In May 1997, the bank conducted a two-hour Spring Spruce-up Seminar (home improvement), which was held at the Stoneham Public Library. The seminar's purpose was to help educate individuals on topics such as the difference between home equity lines of credit and home equity loans, how to determine their available equity, and other topics. Other seminars conducted or participated in by the bank included Financial Check-up, conducted in December 1998 and the Saugus Business Expo in November 1997.

COUNSELING

The bank refers customers who are in need of credit counseling to the appropriate credit counseling services.

SECOND REVIEW PRACTICES

The bank has developed a policy in which all denied mortgage loan applications undergo a second review by a Senior Loan Underwriter before a final decision to decline is made and the adverse action notice is sent. If the Senior Loan analyst concurs with the original decision, the file is then presented to the Manager of Mortgage Loan Underwriting or the Manager of Loan Production for a final evaluation. This second review practice requires that underwriters complete a denied loan checklist and summarize the reason(s) for denial with the second review response. This checklist forces the underwriter to consider all relevant compensating factors before rejecting an applicant. It also ensures that all financing options and credit programs have been analyzed. This documentation is placed in the applicant's file.

INTERNAL ROUTINES AND CONTROL

The bank's independent auditors, perform an annual compliance and quality control audit consisting of ten percent of all approved and denied mortgage loans. The auditors use the bank's underwriting guidelines to evaluate approvals and denials, exceptions or waivers of general guidelines, and other credit product elements to evaluate lending practices.

Also, the bank has entered into a renewable two-year agreement with a professional consulting organization to conduct periodic "Mystery Shopper" tests throughout the year. The purpose of these tests is to determine if all individuals entering or calling the bank for information on a mortgage loan are not discriminated against based on race, color, age, sex or any other prohibited basis.

In 1998, Stoneham Co-operative Bank contracted with another vendor, which provides maps for HMDA analysis purposes, and which consist of an array of colored maps and statistical reports that provide an extensive overview of the lending patterns and demographic dynamics of the bank's assessment area. The report also compares Stoneham Co-operative Bank's lending record with a peer group.

MINORITY APPLICATION FLOW

Stoneham Co-operative Bank's Loan Application Registers for 1997 and year to date October 8, 1998 were reviewed to determine the racial composition of its application flow. During this period, the bank received a total of 1,877 mortgage loan applications from within its assessment area, of which 54, or 2.9% were from minority applicants. Refer to the following table for additional information:

RESIDENTIAL APPLICATION FLOW						
RACE	1997		1998*		TOTAL	
	#	%	#	%	#	%
American Indian	1	0.1	0	0.0	1	0.1
Asian	18	2.0	9	0.8	27	1.4
Black	3	0.4	4	0.4	7	0.4
Hispanic	6	0.8	4	0.4	10	0.5
Other	6	0.8	3	0.3	9	0.5
TOTAL MINORITY	34	4.6	20	1.8	54	2.9
White	710	95.3	1,110	98.1	1,820	97.0
NA	1	0.1	2	0.2	3	0.1
TOTAL	745	100.0	1,132	100.0	1,877	100.0

Source: HMDA\LAR Data

*Year-to-Date October 8, 1998

According to demographic data obtained from PCI Services, Inc. CRA Wiz, Stoneham Co-operative Bank's assessment area has a total population of 504,627 individuals. Minority individuals account for 28,324 or 5.6%.

In addition, Stoneham Co-operative Bank's minority application flow in 1997 was compared to the minority application flow of its peer group. This information shows that the peer group received 6.7% of total applications from within the assessment, from minority applicants. Stoneham Co-operative Bank's minority application flow was somewhat less than peer at 4.6% for the same time period. Refer to the following table for more information:

RACE	1997		1997 Aggregate Data*	
	#	%	#	%
American Indian	1	0.1	50	0.2
Asian	18	2.5	753	3.2
Black	3	0.4	277	1.2
Hispanic	6	0.8	264	1.1
Other	6	0.8	256	1.0
TOTAL MINORITY	34	4.6	1,600	6.7
White	710	95.3	17,112	71.8
No Information	1	0.1	5,120	21.5
TOTAL	745	100.0	23,832	100.0

* ©PCI Services, Inc. CRA WIZ 1997 HMDA Data

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

STONEHAM CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **DECEMBER 21, 1998**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
_____	_____
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_____	_____

A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 19 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction, and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.